

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Sandusky	County Sanilac
Fiscal Year End February 28, 2006	Opinion Date April 6, 2006	Date Audit Report Submitted to State August 22, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | |
|-----|-------------------------------------|-------------------------------------|---|
| | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Zip 48602			
Authorizing CPA Signature 	Printed Name Mari McKenzie		License Number 10725

City of Sandusky
Sanilac County, Michigan
Annual Financial Statements
and
Auditors' Report
February 28, 2006

Table of Contents

<u>Section</u>	<u>Page</u>
1 List of Elected and Appointed Officials	1 – 1
2 Independent Auditors' Report	2 – 1
3 Management's Discussion and Analysis	3 – 1
4 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	4 – 1
Statement of Activities	4 – 2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4 – 3
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	4 – 4
Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 6
Proprietary Funds	
Statement of Net Assets	4 – 7
Statement of Revenues, Expenses and Changes in Fund Net Assets	4 – 9
Statement of Cash Flows	4 – 11
Fiduciary Funds	
Statement of Net Assets	4 – 13
Statement of Changes in Net Assets	4 – 14
Notes to Financial Statements	4 – 15

<u>Section</u>	<u>Page</u>
5 Required Supplemental Information	
Budgetary Comparison Schedule	
General Fund	5 – 1
Major Street Fund	5 – 3
Local Street Fund	5 – 4
Senior Citizens Housing	5 – 5
6 Other Supplemental Information	
Nonmajor Governmental Funds	
Combining Balance Sheet	6 – 1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 – 2
Schedule of Bonded Indebtedness	6 – 3

City of Sandusky
List of Elected and Appointed Officials
February 28, 2006

City Council

Thomas Lukshaitis - Mayor

Edna Smith - Mayor Pro-tem

Keith Costine - Councilperson

Rick Cook - Councilperson

Virginia Bissett - Councilperson

Lupe Vandercook - Councilperson

Marguerite McNiven - Councilperson

Other Officers and Officials

Lou LaPonsie - City Manager

Laurie Thompson - City Clerk

E. Keith Phillips - Treasurer



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Sandusky
Sandusky, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 28, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of February 28, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2006 on our consideration of the City of Sandusky internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sandusky's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

April 6, 2006
Saginaw, Michigan

City of Sandusky
Management's Discussion and Analysis
February 28, 2006

Introduction

Our discussion and analysis of City of Sandusky, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended February 28, 2006. It should be read in conjunction with the City's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets (on page 4-1) and the Statement of Activities (on page 4-2) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 4-3. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The City's combined net assets increased 28% from a year ago – increasing from \$ 5.9 million to \$ 7.5 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$709 thousand during the year, primarily as a result of park improvements that were financed with grants and contributions. The business-type activities experienced a \$338 thousand increase in net assets.

City of Sandusky
Management's Discussion and Analysis
February 28, 2006

Following is an analysis of the major components of the net assets of the City as of February 28, 2006:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 3,428,200	\$ 3,401,452	\$ 825,055	\$ 189,032	\$ 4,253,255	\$ 3,590,484
Capital assets	<u>1,573,936</u>	<u>654,667</u>	<u>7,283,894</u>	<u>4,790,746</u>	<u>8,857,830</u>	<u>5,445,413</u>
Total assets	<u>5,002,136</u>	<u>4,056,119</u>	<u>8,108,949</u>	<u>4,979,778</u>	<u>13,111,085</u>	<u>9,035,897</u>
Liabilities						
Current liabilities	73,464	99,542	1,440,737	56,828	1,514,201	156,370
Noncurrent liabilities	<u>1,294,200</u>	<u>1,588,857</u>	<u>2,811,299</u>	<u>1,404,267</u>	<u>4,105,499</u>	<u>2,993,124</u>
Total liabilities	<u>1,367,664</u>	<u>1,688,399</u>	<u>4,252,036</u>	<u>1,461,095</u>	<u>5,619,700</u>	<u>3,149,494</u>
Net assets						
Invested in capital assets -						
Net of related debt	435,913	475,925	4,539,879	2,997,537	4,975,792	3,473,462
Restricted	63,784	63,711	223,384	222,434	287,168	286,145
Unrestricted	<u>3,134,775</u>	<u>1,828,084</u>	<u>(906,350)</u>	<u>298,712</u>	<u>2,228,425</u>	<u>2,126,796</u>
Total net assets	<u>\$ 3,634,472</u>	<u>\$ 2,367,720</u>	<u>\$ 3,856,913</u>	<u>\$ 3,518,683</u>	<u>\$ 7,491,385</u>	<u>\$ 5,886,403</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2006

The following table shows the changes of net assets as of the current date.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program revenues						
Charges for services	\$ 330,486	\$ 325,378	\$ 1,241,936	\$ 1,051,897	\$ 1,572,422	\$ 1,377,275
Operating grants and contributions	266,372	4,000	-	-	266,372	4,000
Capital grants and contributions	439,236	472,725	73,183		512,419	472,725
General revenues						
Property taxes	1,257,694	1,190,294	-	-	1,257,694	1,190,294
State shared revenue	557,119	501,282	-	-	557,119	501,282
Unrestricted investment income	69,303	51,272	19,441	695	88,744	51,967
Gain on sale of capital assets	2,682	2,307	-	-	2,682	2,307
Miscellaneous	33,693	23,537	33,079	22,808	66,772	46,345
Total revenues	<u>2,956,585</u>	<u>2,570,795</u>	<u>1,367,639</u>	<u>1,075,400</u>	<u>4,324,224</u>	<u>3,646,195</u>
Program expenses						
General government	456,893	397,163	-	-	456,893	397,163
Public safety	568,148	538,586	-	-	568,148	538,586
Public works	742,803	802,050	-	-	742,803	802,050
Health and welfare	287,089	247,331	-	-	287,089	247,331
Community and economic development	2,847	39,429	-	-	2,847	39,429
Recreation and culture	112,019	116,142	-	-	112,019	116,142
Interest on long-term debt	77,854	77,353	-	-	77,854	77,353
Sewer	-	-	648,125	716,778	648,125	716,778
Water	-	-	381,284	448,355	381,284	448,355
Total expenses	<u>2,247,653</u>	<u>2,218,054</u>	<u>1,029,409</u>	<u>1,165,133</u>	<u>3,277,062</u>	<u>3,383,187</u>
Change in net assets	<u>\$ 708,932</u>	<u>\$ 352,741</u>	<u>\$ 338,230</u>	<u>\$ (89,733)</u>	<u>\$ 1,047,162</u>	<u>\$ 263,008</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2006

Governmental Activities

The City's total governmental activities revenues were \$2,956,585. This is a 15% increase over last year. The increase is primarily related to grants for the airport renovations and park improvements.

The City's total governmental activities expenses were \$2,247,653. This is a 1% increase over last year.

Business-type Activities

The City's total business-type activities revenues were \$1,367,639. This is a 27% increase over last year. The increase is primarily related to a 15% water and sewer rate increase.

The City's total business-type activities expenses were \$1,029,409. This is an 11% decrease under last year. A DEQ penalty of \$79,806 and a loss on disposal of capital assets of \$34,625 were not repeated in the current year.

Major projects to be financed by Rural Development included the government mandated arsenic removal plant and waste water treatment plant improvements.

The City's Funds

Our analysis of the City's major funds begins on page 4-3, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as water and sewer service, roadwork, storm sewers and sidewalks. The City's major funds for 2005-06 include the General, Major Street, Local Street, Senior Citizens Housing, Sewer and Water Funds.

The General Fund pays for most of the City's governmental services. The most significant services are police protection, which incurred expenditures of \$463,764 in 2005-06.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget. The significant budget changes included the following:

- Building and grounds increased \$47,000 to accommodate additional legal expenses and tax tribunal adjustment.
- Local streets was increased \$32,000 for construction of the street at the park.

City of Sandusky
Management's Discussion and Analysis
February 28, 2006

Capital Asset and Debt Administration

At the end of fiscal year 2005-06, the City had \$8,857,830 in a broad range of capital assets, including buildings, police equipment and water and sewer lines. Capital asset Increases during the year included airport renovations, park improvements, arsenic removal plant and waste water treatment plant improvements.

The City has \$500,000 in general obligation bonds remaining to be paid. The City also has governmental activity long-term debt of \$545,188 in installment purchase agreements, \$63,835 in capital leases, and \$185,177 in compensated absences. Debt attributable to business-type activities includes \$2,709,120 in bonds payable and \$102,179 in compensated absences. The City has \$730,000 remaining in additional bonds available for the arsenic removal plant and \$4,540,000 in additional bonds available for the waste water treatment plant improvements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2006-07 includes expenditures for completion of park development, arsenic removal from potable water and wastewater treatment plant improvements.

Contacting the Government

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City's Finance Director.

City of Sandusky
Statement of Net Assets
February 28, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,563,933	\$ 628,777	\$ 3,192,710
Investments	199,554	-	199,554
Receivables			
Taxes	136,541	-	136,541
Customers	24,306	319,396	343,702
Special assessments	-	12,674	12,674
Accrued interest and other	6,785	-	6,785
Due from other units of government	124,977	-	124,977
Internal balances	359,176	(359,176)	-
Restricted assets			
Cash and cash equivalents	12,928	223,384	236,312
Capital assets not being depreciated	623,274	2,845,195	3,468,469
Capital assets, net of accumulated depreciation	950,662	4,438,699	5,389,361
Total assets	<u>5,002,136</u>	<u>8,108,949</u>	<u>13,111,085</u>
Liabilities			
Accounts payable	12,329	1,388,977	1,401,306
Accrued and other liabilities	61,135	44,600	105,735
Due to other units of government	-	7,160	7,160
Noncurrent liabilities			
Due within one year	213,700	143,750	357,450
Due in more than one year	1,080,500	2,667,549	3,748,049
Total liabilities	<u>1,367,664</u>	<u>4,252,036</u>	<u>5,619,700</u>
Net Assets			
Invested in capital assets, net of related debt	435,913	4,539,879	4,975,792
Restricted for:			
Drug forfeiture	2,338	-	2,338
Debt	-	223,384	223,384
Perpetual care	61,446	-	61,446
Unrestricted	3,134,775	(906,350)	2,228,425
Total net assets	<u>\$ 3,634,472</u>	<u>\$ 3,856,913</u>	<u>\$ 7,491,385</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 28, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 456,893	\$ 11,762	\$ -	\$ -	\$ (445,131)	\$ -	\$ (445,131)
Public safety	568,148	17,679	-	-	(550,469)	-	(550,469)
Public works	742,803	134,050	-	297,608	(311,145)	-	(311,145)
Health and welfare	287,089	133,002	264,322	-	110,235	-	110,235
Community and economic development	2,847	-	-	-	(2,847)	-	(2,847)
Recreation and culture	112,019	33,993	2,050	141,628	65,652	-	65,652
Interest on long-term debt	77,854	-	-	-	(77,854)	-	(77,854)
Total governmental activities	<u>2,247,653</u>	<u>330,486</u>	<u>266,372</u>	<u>439,236</u>	<u>(1,211,559)</u>	<u>-</u>	<u>(1,211,559)</u>
Business-type activities							
Sewer	648,125	735,093	-	67,510	-	154,478	154,478
Water	381,284	506,843	-	5,673	-	131,232	131,232
Total business-type activities	<u>1,029,409</u>	<u>1,241,936</u>	<u>-</u>	<u>73,183</u>	<u>-</u>	<u>285,710</u>	<u>285,710</u>
Total primary government	<u>\$ 3,277,062</u>	<u>\$ 1,572,422</u>	<u>\$ 266,372</u>	<u>\$ 512,419</u>	<u>(1,211,559)</u>	<u>285,710</u>	<u>(925,849)</u>
General revenues							
Property taxes					1,257,694	-	1,257,694
State shared revenue					557,119	-	557,119
Unrestricted investment earnings					69,303	19,441	88,744
Gain on sale of capital assets					2,682	-	2,682
Miscellaneous					33,693	33,079	66,772
Total general revenues					<u>1,920,491</u>	<u>52,520</u>	<u>1,973,011</u>
Change in net assets					<u>708,932</u>	<u>338,230</u>	<u>1,047,162</u>
Net assets - beginning of year					<u>2,367,720</u>	<u>3,518,683</u>	<u>5,886,403</u>
Prior period adjustment					<u>557,820</u>	<u>-</u>	<u>557,820</u>
Net assets - beginning of year (restated)					<u>2,925,540</u>	<u>3,518,683</u>	<u>6,444,223</u>
Net assets - end of year					<u>\$ 3,634,472</u>	<u>\$ 3,856,913</u>	<u>\$ 7,491,385</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Balance Sheet
February 28, 2006

	Special Revenue Funds					
	General	Major Street	Local Street	Senior Citizens Housing	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,865,095	\$ 184,863	\$ 22,763	\$ 161,716	\$ 76,847	\$ 2,311,284
Investments	149,554	-	-	50,000	-	199,554
Receivables						
Taxes	114,063	-	-	-	-	114,063
Customers	24,306	-	-	-	-	24,306
Accrued interest and other	6,107	-	-	678	-	6,785
Due from other units of government	89,628	24,987	10,362	-	-	124,977
Due from other funds	6,200	-	-	-	-	6,200
Advances to other funds	401,325	-	-	-	-	401,325
Total assets	<u>\$ 2,656,278</u>	<u>\$ 209,850</u>	<u>\$ 33,125</u>	<u>\$ 212,394</u>	<u>\$ 76,847</u>	<u>\$ 3,188,494</u>
Liabilities						
Accounts payable	\$ 8,513	\$ 139	\$ 139	\$ 161	\$ 1,337	\$ 10,289
Accrued and other liabilities	18,053	941	1,090	11,340	358	31,782
Deferred revenue	1,251,408	-	-	-	-	1,251,408
Total liabilities	<u>1,277,974</u>	<u>1,080</u>	<u>1,229</u>	<u>11,501</u>	<u>1,695</u>	<u>1,293,479</u>
Fund Balances						
Reserved for:						
Drug forfeiture	2,338	-	-	-	-	2,338
Advance to water and sewer funds	401,325	-	-	-	-	401,325
Perpetual care	-	-	-	-	61,446	61,446
Unreserved						
Designated for:						
Cemetery	27,206	-	-	-	-	27,206
City Hall	15,221	-	-	-	-	15,221
Industrial Park	50,705	-	-	-	-	50,705
Recreation	67,668	-	-	-	-	67,668
Police	26,182	-	-	-	-	26,182
DPW	273	-	-	-	-	273
Senior citizens building	134,113	-	-	-	-	134,113
Unreserved, reported in:						
General fund	653,273	-	-	-	-	653,273
Special revenue funds	-	208,770	31,896	200,893	7,739	449,298
Permanent fund	-	-	-	-	5,967	5,967
Total fund balances	<u>1,378,304</u>	<u>208,770</u>	<u>31,896</u>	<u>200,893</u>	<u>75,152</u>	<u>1,895,015</u>
Total liabilities and fund balances	<u>\$ 2,656,278</u>	<u>\$ 209,850</u>	<u>\$ 33,125</u>	<u>\$ 212,394</u>	<u>\$ 76,847</u>	<u>\$ 3,188,494</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2006

Total fund balances for governmental funds	\$ 1,895,015
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,402,914
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,251,408
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(29,000)
Compensated absences	(185,177)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(1,066,767)
Internal service funds are included as part of governmental activities.	<u>366,079</u>
Net assets of governmental activities	<u><u>\$ 3,634,472</u></u>

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 28, 2006

	Special Revenue Funds				Other Governmental Funds	Governmental Funds Total
	General	Major Street	Local Street	Senior Citizens Housing		
Revenues						
Taxes	\$ 1,206,715	\$ -	\$ -	\$ -	\$ -	\$ 1,206,715
Licenses and permits	3,130	-	-	-	-	3,130
Federal grants	-	-	-	264,322	135,055	399,377
State revenue sharing	294,944	-	-	-	-	294,944
Other state grants	37,984	166,768	57,423	-	43,742	305,917
Local contributions	-	26,450	92,361	-	-	118,811
Charges for services	145,586	-	-	-	10,513	156,099
Fines and forfeitures	621	-	-	-	-	621
Interest income	44,316	6,274	1,149	7,034	3,324	62,097
Rental income	15,688	-	-	135,052	5,940	156,680
Other revenue	44,526	5,650	-	103	48	50,327
Total revenues	<u>1,793,510</u>	<u>205,142</u>	<u>150,933</u>	<u>406,511</u>	<u>198,622</u>	<u>2,754,718</u>
Expenditures						
Current						
General government	449,925	-	-	-	-	449,925
Public safety	544,383	-	-	-	-	544,383
Public works	417,511	111,935	154,480	-	45,902	729,828
Health and Welfare	-	-	-	259,424	-	259,424
Community and economic development	2,847	-	-	-	-	2,847
Recreation and culture	104,149	-	-	-	-	104,149
Capital outlay	143,256	8,166	82,493	27,665	206,017	467,597
Debt service						
Principal retirement	66,193	-	-	-	119,656	185,849
Interest and fiscal charges	25,799	-	-	-	59,055	84,854
Total expenditures	<u>1,754,063</u>	<u>120,101</u>	<u>236,973</u>	<u>287,089</u>	<u>430,630</u>	<u>2,828,856</u>
Excess (deficiency) of revenues over expenditures	<u>39,447</u>	<u>85,041</u>	<u>(86,040)</u>	<u>119,422</u>	<u>(232,008)</u>	<u>(74,138)</u>
Other financing sources (uses)						
Transfers in	54,782	-	110,290	-	210,919	375,991
Transfers out	(130,409)	(35,250)	-	(155,550)	(54,782)	(375,991)
Capital lease	21,321	-	-	-	-	21,321
Sale of fixed assets	2,682	-	-	-	-	2,682
Total other financing sources and uses	<u>(51,624)</u>	<u>(35,250)</u>	<u>110,290</u>	<u>(155,550)</u>	<u>156,137</u>	<u>24,003</u>
Net change in fund balance	(12,177)	49,791	24,250	(36,128)	(75,871)	(50,135)
Fund balance - beginning of year	1,390,481	158,979	7,646	237,021	151,023	1,945,150
Fund balance - end of year	<u>\$ 1,378,304</u>	<u>\$ 208,770</u>	<u>\$ 31,896</u>	<u>\$ 200,893</u>	<u>\$ 75,152</u>	<u>\$ 1,895,015</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended February 28, 2006

Net change in fund balances - total governmental funds \$ (50,135)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(31,019)
Capital outlay	392,739
Donations of capital assets	141,000

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

Property taxes	50,979
----------------	--------

Expenses are recorded when incurred in the statement of activities

Accrued interest	7,000
Compensated absences	(6,396)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Debt issued	(21,321)
Repayments of long-term debt	185,849

Internal service funds are also included as governmental activities	<u>40,237</u>
---	---------------

Change in net assets of governmental activities	<u><u>\$ 708,933</u></u>
--	--------------------------

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 338,922	\$ 289,855	\$ 628,777	\$ 252,649
Receivables				
Customers	194,689	124,707	319,396	-
Special assessments, current	-	3,833	3,833	-
Due from other funds	15,825	25,755	41,580	-
Total current assets	549,436	444,150	993,586	252,649
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	209	223,175	223,384	12,928
Special assessments receivable, deferred	-	8,841	8,841	-
Capital assets not being depreciated	1,847,930	997,265	2,845,195	-
Capital assets, net of accumulated depreciation	2,668,807	1,769,892	4,438,699	171,022
Total noncurrent assets	4,516,946	2,999,173	7,516,119	183,950
Total assets	5,066,382	3,443,323	8,509,705	436,599
Liabilities				
Current liabilities				
Accounts payable	1,046,508	342,469	1,388,977	2,040
Accrued and other liabilities	16,649	27,951	44,600	353
Due to other funds	19,102	6,200	25,302	-
Due to other units of government	7,160	-	7,160	-
Current portion of noncurrent liabilities	58,550	85,200	143,750	8,427
Total current liabilities	1,147,969	461,820	1,609,789	10,820

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Noncurrent liabilities				
Advances from other funds	\$ 105,331	\$ 295,994	\$ 401,325	\$ -
Long-term debt net of current portion	<u>823,926</u>	<u>1,843,623</u>	<u>2,667,549</u>	<u>33,829</u>
Total noncurrent liabilities	<u>929,257</u>	<u>2,139,617</u>	<u>3,068,874</u>	<u>33,829</u>
Total liabilities	<u>2,077,226</u>	<u>2,601,437</u>	<u>4,678,663</u>	<u>44,649</u>
Net Assets				
Invested in capital assets, net of related debt	3,701,021	838,858	4,539,879	128,766
Restricted for:				
Debt	209	223,175	223,384	12,928
Unrestricted	<u>(712,074)</u>	<u>(220,147)</u>	<u>(932,221)</u>	<u>250,256</u>
Total net assets	<u>\$ 2,989,156</u>	<u>\$ 841,886</u>	<u>3,831,042</u>	<u>\$ 391,950</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>25,871</u>	
Net assets of business-type activities			<u>\$ 3,856,913</u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 726,096	\$ 506,843	\$ 1,232,939	\$ -
Billings to other funds	-	-	-	137,127
Other revenue	15,408	19,113	34,521	(935)
Total operating revenue	741,504	525,956	1,267,460	136,192
Operating expenses				
Personnel services	323,247	159,470	482,717	21,477
Supplies	44,856	18,578	63,434	22,250
Contractual services	18,030	2,457	20,487	650
Utilities	82,599	18,088	100,687	-
Repairs and maintenance	15,899	26,632	42,531	22,644
Other expenses	37,400	39,011	76,411	10,307
Depreciation	116,198	52,371	168,569	17,263
Total operating expenses	638,229	316,607	954,836	94,591
Operating income	103,275	209,349	312,624	41,601

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Nonoperating revenue (expenses)				
Interest income	\$ 6,981	\$ 12,460	\$ 19,441	\$ 7,206
Interest expense	(10,978)	(72,165)	(83,143)	-
Total nonoperating revenues (expenses)	(3,997)	(59,705)	(63,702)	7,206
Income before contributions	99,278	149,644	248,922	48,807
Capital contributions	75,065	5,673	80,738	-
Change in net assets	174,343	155,317	329,660	48,807
Net assets - beginning of year	2,814,813	686,569		343,143
Net assets - end of year	\$ 2,989,156	\$ 841,886		\$ 391,950
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			8,570	
Change in net assets of business-type activities			\$ 338,230	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 28, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Cash flows from operating activities				
Receipts from customers	\$ 707,133	\$ 516,752	\$ 1,223,885	\$ -
Receipts from interfund users	-	-	-	137,127
Receipts from other funds	(1,116)	7,098	5,982	-
Payments to other funds	19,102	(12,116)	6,986	-
Payments to suppliers	(94,774)	(40,345)	(135,119)	(57,794)
Payments to employees	(323,247)	(159,470)	(482,717)	(21,477)
Payments for interfund services used	(3,600)	(24,748)	(28,348)	-
Net cash provided by operating activities	<u>303,498</u>	<u>287,171</u>	<u>590,669</u>	<u>57,856</u>
Cash flows from capital and related financing activities				
Proceeds from capital debt	800,000	670,000	1,470,000	54,775
Proceeds from special assessments	-	9,489	9,489	-
Capital contributions	75,065	5,673	80,738	-
Advance repayments from other funds	(159,806)	-	(159,806)	-
Purchases/construction of capital assets	(717,017)	(699,510)	(1,416,527)	(54,776)
Principal and interest paid on long-term debt	(16,224)	(129,887)	(146,111)	(12,519)
Net cash used by capital and related financing activities	<u>(17,982)</u>	<u>(144,235)</u>	<u>(162,217)</u>	<u>(12,520)</u>
Cash flows from investing activities				
Interest received	<u>6,981</u>	<u>12,460</u>	<u>19,441</u>	<u>7,206</u>
Net increase in cash and cash equivalents	292,497	155,396	447,893	52,542
Cash and cash equivalents - beginning of year	<u>46,634</u>	<u>357,634</u>	<u>404,268</u>	<u>213,035</u>
Cash and cash equivalents - end of year	<u>\$ 339,131</u>	<u>\$ 513,030</u>	<u>\$ 852,161</u>	<u>\$ 265,577</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 28, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 103,275	\$ 209,349	\$ 312,624	\$ 41,601
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	116,198	52,371	168,569	17,263
Changes in assets and liabilities				
Receivables (net)	(34,371)	(9,204)	(43,575)	936
Due from other funds	(1,116)	7,098	5,982	-
Prepaid items	-	1,364	1,364	-
Accounts payable	88,379	35,346	123,725	(2,112)
Accrued and other liabilities	12,031	2,963	14,994	168
Due to other funds	19,102	(12,116)	6,986	-
Net cash provided by operating activities	<u>\$ 303,498</u>	<u>\$ 287,171</u>	<u>\$ 590,669</u>	<u>\$ 57,856</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Net Assets
February 28, 2006

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 107,568	\$ 21,033
Investments	66,147	-
Receivables		
Accrued interest and other	17	-
	<u>173,732</u>	<u>\$ 21,033</u>
Liabilities		
Due to other funds	22,478	\$ -
Due to other units of government	<u>-</u>	<u>21,033</u>
	<u>22,478</u>	<u>\$ 21,033</u>
Net Assets		
Held in trust for pension benefits and other purposes	<u>\$ 151,254</u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Changes in Net Assets
Year Ended February 28, 2006

	<u>Pension and Other Employee Benefit Trust Funds</u>
Additions	
Contributions Employer	\$ 28,733
Investment earnings	
Interest	<u>5,383</u>
Change in net assets	34,116
Net assets - beginning of year	<u>117,138</u>
Net assets - end of year	<u>\$ 151,254</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Notes to Financial Statements
February 28, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

City of Sandusky is governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City has no component units.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or

segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, sales taxes, franchise taxes, licenses, and interest

City of Sandusky
Notes to Financial Statements
February 28, 2006

associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Senior Citizens Housing Fund accounts for the operation of the senior citizens housing unit owned by the City.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The Permanent Fund accounts for perpetual cemetery resources and expenditures.

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Debt Service Funds accounts for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

Internal Service Funds accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for pension and other post-employment benefit payments to qualified employees.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

City of Sandusky
Notes to Financial Statements
February 28, 2006

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$63,883,753, on which ad valorem taxes consisted of 19.5 mills for operating purposes. This resulted in \$1,245,733 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

City of Sandusky
Notes to Financial Statements
February 28, 2006

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets for land, site improvements, buildings, and building improvements of more than \$10,000 and equipment with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The City began recording governmental infrastructure constructed on or after March 1, 2003.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 50 years
Building improvements	5 to 25 years
Water and sewer lines	40 years
Vehicles	3 to 10 years
Machinery and equipment	5 to 20 years

Compensated absences – In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The vacation policy no longer allows for the carryover of unused days. Days accumulated prior to the change in policy were capped and continue to be available. The dollar amount for vested rights has been accrued in the governmental-wide, proprietary and fiduciary fund financial statements. A liability for these

amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

City of Sandusky
Notes to Financial Statements
February 28, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to February 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. After the budget is adopted, any revisions to revenues or expenditures must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Deficit Fund Equity

The City has deficit unrestricted net assets in the sewer and water funds. These will self correct when additional bond proceeds are received for the arsenic removal plant and waste water treatment plant improvements.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of year end, the government had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Scudder Total Return Fd - A	\$ 5,897	Daily	Unrated	
Scudder High Income Fd - A	26,241	Daily	BB	Moody's
American Life Annuity	7,472		Unrated	

The investments are held in a pension plan administered by Midwest Pension Actuaries, Inc.

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

City of Sandusky
Notes to Financial Statements
February 28, 2006

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$3,697,940 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension trust fund is held by an outside party and is insured.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
Property taxes	<u>\$ 1,251,408</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 343,350	\$ -	\$ -	\$ 343,350
Construction in progress	-	279,924	-	279,924
Total capital assets not being depreciated	<u>343,350</u>	<u>279,924</u>	<u>-</u>	<u>623,274</u>
Capital assets being depreciated				
Land improvements	-	150,000	-	150,000
Infrastructure	78,656	82,493	-	161,149
Buildings, additions and improvements	394,831	-	-	394,831
Machinery and equipment	434,668	54,776	-	489,444
Vehicles	339,646	21,321	-	360,967
Total capital assets being depreciated	<u>1,247,801</u>	<u>308,590</u>	<u>-</u>	<u>1,556,391</u>
Less accumulated depreciation for				
Infrastructure	2,622	7,994	-	10,616
Buildings, additions and improvements	15,793	-	-	15,793
Machinery and equipment	246,166	24,348	-	270,514
Vehicles	292,866	15,940	-	308,806
Total accumulated depreciation	<u>557,447</u>	<u>48,282</u>	<u>-</u>	<u>605,729</u>
Net capital assets being depreciated	<u>690,354</u>	<u>260,308</u>	<u>-</u>	<u>950,662</u>
Governmental activities capital assets, net	<u>\$ 1,033,704</u>	<u>\$ 540,232</u>	<u>\$ -</u>	<u>\$ 1,573,936</u>
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 224,554	\$ 2,620,641	\$ -	\$ 2,845,195
Capital assets being depreciated				
Machinery and equipment	271,325	-	-	271,325
Vehicles	6,268	-	-	6,268
Water system	2,315,087	-	-	2,315,087
Sewer system	4,679,143	41,076	-	4,720,219
Total capital assets being depreciated	<u>7,271,823</u>	<u>41,076</u>	<u>-</u>	<u>7,312,899</u>
Less accumulated depreciation for				
Machinery and equipment	178,777	17,345	-	196,122
Vehicles	6,266	-	-	6,266
Water system	492,826	52,371	-	545,197
Sewer system	2,027,762	98,853	-	2,126,615
Total accumulated depreciation	<u>2,705,631</u>	<u>168,569</u>	<u>-</u>	<u>2,874,200</u>
Net capital assets being depreciated	<u>4,566,192</u>	<u>(127,493)</u>	<u>-</u>	<u>4,438,699</u>
Business-type capital assets, net	<u>\$ 4,790,746</u>	<u>\$ 2,493,148</u>	<u>\$ -</u>	<u>\$ 7,283,894</u>

City of Sandusky
Notes to Financial Statements
February 28, 2006

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

Public safety	\$ 19,318
Public works	11,701
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>17,263</u>
Total governmental activities	<u>48,282</u>

Business-type activities

Sewer	116,198
Water	<u>52,371</u>
Total business-type activities	<u>168,569</u>
Total primary government	<u>\$ 216,851</u>

Construction Commitments

The City has construction contractual commitments in the amount of \$5,500,000 outstanding at February 28, 2006.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
General	Water	\$ 6,200
Sewer	Employees Sick Pay	15,825
Water	Employees Sick Pay	6,653
Water	Sewer	<u>19,102</u>
		<u>\$ 47,780</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Receivable Fund	Payable Fund	Amount
Advances due to/from other funds		
General	Water	\$ 295,994
General	Sewer	<u>105,331</u>
		<u>\$ 401,325</u>

The "advances due to/from other funds" are a result of zero interest loans made from the general fund to the water and sewer funds for bond payments and construction. Payment terms have not been established.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General	Local Street	\$ 75,040
General	Airport	53,204
General	Cemetery	2,165
Cemetery	General	54,782
Major Street	Local Street	35,250
Senior Citizens	Senior Citizens Debt	<u>155,550</u>
		<u>\$ 375,991</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

City of Sandusky
Notes to Financial Statements
February 28, 2006

NOTE 7 - LEASES

Capital leases

The City has a capital lease for two police vehicles and a backhoe.
The future minimum lease payments are as follows:

Year ending February 28.

2007	\$ 27,396
2008	19,626
2009	12,519
2010	<u>12,519</u>
Total minimum lease payments	72,060
Less amount representing interest	<u>8,225</u>
Present value of minimum lease payments	<u><u>\$ 63,835</u></u>
Asset	
Machinery and equipment	\$ 99,405
Less accumulated depreciation	<u>11,323</u>
Total	<u><u>\$ 88,082</u></u>

City of Sandusky
Notes to Financial Statements
February 28, 2006

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, Sewer Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
1980 Senior Citizens Housing	\$ 2,050,000	11/1/09	9.25%	\$125,000	\$ 600,000	\$ -	\$ 100,000	\$ 500,000	\$ 125,000
Installment purchase agreements									
1999 Tornado Sirens	44,743	4/15/05	3.95%	-	8,205	-	8,205	-	-
1999 Runway Rehabilitation Project	40,000	7/14/09	4.50%	\$4,239 - \$4,839	22,193	-	4,056	18,137	4,239
2001 Runway Rehabilitation Project	17,898	6/8/11	4.60%	\$1,736 - \$2,165	13,338	-	1,659	11,679	1,736
2002 Fire Hall Roof	18,683	12/15/06	3.75%	\$3,995	7,856	-	3,861	3,995	3,995
2003 Vacant Land	225,000	3/4/18	4.55%	\$11,794 - \$20,113	214,237	-	11,280	202,957	11,794
2003 John Deere Tractor	72,855	3/20/07	4.33%	\$14,545 - \$15,175	43,661	-	13,941	29,720	14,545
2004 Michigan Economic Dev. Corp	384,152	11/1/13	5.00%	\$7,416 - \$10,765	307,459	-	28,759	278,700	30,226
Total bonds payable					1,216,949	-	171,761	1,045,188	191,535
Capital leases									
2005 Ford Crown Victoria	23,309	10/5/06	5.50%	\$7,365	14,346	-	6,981	7,365	7,365
2005 Ford Crown Victoria	21,321	6/13/07	5.60%	\$6,373 - \$6,730	-	21,321	7,107	14,214	6,373
Compensated absences					178,781	6,396	-	185,177	-
Internal service fund obligations									
Capital lease - Backhoe	54,775	2/28/10	4.40% - 6.00%	\$8,427 - \$11,861	-	54,775	12,519	42,256	8,427
Total governmental activities					\$ 1,410,076	\$ 82,492	\$ 198,368	\$ 1,294,200	\$ 213,700

City of Sandusky
Notes to Financial Statements
February 28, 2006

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities									
Bonds and notes payable									
General obligation bonds									
Bonds, Series 2000	\$ 650,000	11/1/17	5.10%-5.80%	\$35,000 - \$50,000	\$ 540,000	\$ -	\$ 30,000	\$ 510,000	\$ 35,000
Bonds, Series 2001	750,000	11/1/21	4.50%-5.40%	\$20,000 - \$75,000	750,000	-	20,000	730,000	20,000
Sewage Disposal System Revenue									
Bonds, Series 2005A	3,690,000	9/1/45	4.25%	\$36,000 - \$187,000	-	220,000	-	220,000	36,000
Sewage Disposal System Revenue									
Bonds, Series 2005B	1,650,000	9/1/45	4.25%	\$17,000 - \$87,000	-	580,000	-	580,000	17,000
Water Supply System Junior Lien									
Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	\$20,000 - \$64,000	-	667,000	-	667,000	20,000
Water Supply System Junior Lien									
Revenue Bonds, Series 2005B	54,000	11/1/45	4.25%	\$750 - \$2,300	-	3,000	-	3,000	750
Special assessment obligations									
1992 Special Assessment Tax Bonds	45,000	11/1/06	6.00%	\$15,000	30,000	-	15,000	15,000	15,000
Less deferred amounts									
For issuance discounts					(17,016)	-	(1,136)	(15,880)	-
Total bonds payable					1,302,984	1,470,000	63,864	2,709,120	143,750
Compensated absences					101,283	896	-	102,179	-
Total business-type activities					<u>\$ 1,404,267</u>	<u>\$ 1,470,896</u>	<u>\$ 63,864</u>	<u>\$ 2,811,299</u>	<u>\$ 143,750</u>

City of Sandusky
Notes to Financial Statements
February 28, 2006

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 191,535	\$ 71,650	\$ 143,750	\$ 350,098
2008	190,516	56,960	135,750	344,268
2009	177,779	42,300	142,750	338,110
2010	180,386	28,134	149,750	331,496
2011	53,039	13,860	152,000	322,480
2012-2016	194,188	33,113	658,000	923,783
2017-2021	57,745	5,339	701,000	610,052
2022-2026	-	-	392,000	469,814
2027-2031	-	-	226,000	264,650
2032-2036	-	-	24,000	29,878
	<u>\$ 1,045,188</u>	<u>\$ 251,356</u>	<u>\$ 2,725,000</u>	<u>\$ 3,984,629</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other municipalities to form the Michigan Risk Management Authority (MMRMA), a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$3 million for each insured event. The MMRMA provides general liability, casualty and fleet coverage to the City.

The City is also a member of the Michigan Municipal League (MML). The City contracts with Meadowbrook Insurance through the MML for its worker's compensation and airport insurance coverage. The City continues to carry commercial insurance for employee health coverage through Blue Cross Blue Shield of Michigan.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The City of Sandusky maintains two defined benefit plans. Two former employees still receive benefits from plans administered by Midwest Pension Actuaries (MPA). The MERS administers all current eligible employees and all retired employees not administered by Midwest Pension Actuaries, Inc. As such, the City's financial statements reflects the activity of the pension fund as administered by Midwest Pension Actuaries, Inc. The following is a summary of both defined benefit pension plans.

Plan as Administered by Midwest Pension Actuaries, Inc.

The cost and market value of the pension fund investments administered by MPA at February 28, 2006 are as follows:

	Cost	Market
Scudder Investments	\$ 32,138	\$ 32,138
American Life Annuity	<u>7,472</u>	<u>7,472</u>
Total	<u>\$ 39,610</u>	<u>\$ 39,610</u>

Plan as Administered by Michigan Municipal Employees' Retirement System

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

City of Sandusky
Notes to Financial Statements
February 28, 2006

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 15.98%, 7.61% and 19.88% of gross wages for general employees, police and DPW and WWTP union, respectively.

Annual pension costs – For year ended 2006, the government's annual pension cost of \$142,557 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8% investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 3% - 4% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	2004	2003	2002
Annual pension cost	\$ 146,936	\$ 128,268	\$ 110,172
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,040,830	914,279	786,029
Actuarial accrued liabilities	2,856,605	2,623,475	2,449,781
Unfunded AAL	1,815,775	1,709,196	1,663,752
Funded ratio	36.0%	35%	32.0%
Covered payroll	909,062	896,106	906,229
UAAL as a percentage of covered payroll	200%	191%	184%

NOTE 11 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in the preceding note, the City provides a fixed amount in post-retirement health care benefits per month. Contracts identify specific requirements. There are no participants receiving benefits, and accordingly there were no expenditures for the fiscal year.

As permitted by the Michigan Department of Treasury, effective March 1, 2002, the City established an Employee Sick Pay Fund and Employee Health Care Fund. The Employee Sick Pay Fund is used to account for money set-aside for employee's sick pay. The Employee Health Care Fund is for the accumulation and investment of funds to provide for the funding of health care benefits to retired employees and their beneficiaries.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

The February 28, 2005 financial statements have been restated to account for the following change in net assets that were not previously recorded in the prior audit. The following shows the effect of the restatement on net assets.

City of Sandusky
Notes to Financial Statements
February 28, 2006

	<u>Original 2005</u>	<u>Restatement</u>	<u>Restated 2005</u>
Governmental Activities			
Net assets - beginning of year	\$ 2,367,720	\$ -	\$ 2,367,720
Compensated absences	-	178,782	178,782
Capital assets	<u>-</u>	<u>379,038</u>	<u>379,038</u>
Net assets - beginning of year restated	<u>\$ 2,367,720</u>	<u>\$ 557,820</u>	<u>\$ 2,925,540</u>

NOTE 14 - UPCOMING ACCOUNTING AND REPORTING CHANGE

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending February 28, 2010.

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 1,192,000	\$ 1,192,000	\$ 1,204,313	\$ 12,313
Penalties and interest	2,000	2,000	2,402	402
Licenses and permits	3,000	3,000	3,130	130
State revenue sharing	298,000	298,000	294,944	(3,056)
State grants	70,000	70,000	37,984	(32,016)
Local contributions	3,500	3,500	-	(3,500)
Charges for services	136,500	136,500	145,586	9,086
Fines and forfeitures	600	600	621	21
Interest income	17,100	17,100	44,316	27,216
Rental income	14,528	14,528	15,688	1,160
Other revenue	14,000	14,000	44,526	30,526
Sale of fixed assets	-	-	2,682	2,682
Capital lease	-	-	21,321	21,321
Transfer in	84,806	84,806	54,782	(30,024)
	<u>1,836,034</u>	<u>1,836,034</u>	<u>1,872,295</u>	<u>36,261</u>
Total revenues				
Expenditures				
General government				
Township board	15,000	15,000	13,624	(1,376)
Manager	62,505	62,505	57,069	(5,436)
Clerk	72,616	72,616	73,298	682
Board of review	1,700	1,700	1,385	(315)
Treasurer	13,965	13,965	13,172	(793)
Assessor	16,750	16,750	15,504	(1,246)
Elections	4,200	4,200	1,371	(2,829)
Buildings and grounds	204,925	252,425	228,645	(23,780)
Cemetery	52,715	52,715	45,857	(6,858)
	<u>444,376</u>	<u>491,876</u>	<u>449,925</u>	<u>(41,951)</u>
Total general government				

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	\$ 494,498	\$ 483,998	\$ 463,764	\$ (20,234)
Fire department	87,710	75,210	74,160	(1,050)
Building inspection department	10,350	10,350	6,459	(3,891)
Total public safety	592,558	569,558	544,383	(25,175)
Public works				
Department of public works	251,720	251,720	251,668	(52)
Sidewalks	1,000	5,000	4,946	(54)
Street lighting	66,800	70,300	70,289	(11)
Sanitary land fill	90,500	90,650	90,608	(42)
Total public works	410,020	417,670	417,511	(159)
Community and economic development				
Planning	2,700	2,700	2,247	(453)
Zoning	1,100	1,100	600	(500)
Total community and economic development	3,800	3,800	2,847	(953)
Recreation and culture				
Parks and recreation	133,733	133,733	104,149	(29,584)
Capital outlay	182,000	147,085	143,256	(3,829)
Debt service				
Principal retirement	49,421	49,421	66,193	16,772
Interest and fiscal charges	42,198	42,798	25,799	(16,999)
Total debt service	91,619	92,219	91,992	(227)
Transfers out	128,244	130,409	130,409	-
Total expenditures	1,986,350	1,986,350	1,884,472	(101,878)
Deficiency of revenues under expenditures	(150,316)	(150,316)	(12,177)	138,139
Fund balance - beginning of year	1,390,481	1,390,481	1,390,481	-
Fund balance - end of year	\$ 1,240,165	\$ 1,240,165	\$ 1,378,304	\$ 138,139

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state grants	\$ 163,500	\$ 165,600	\$ 166,768	\$ 1,168
Local contributions	59,000	25,505	26,450	945
Interest income	1,000	5,800	6,274	474
Other revenue	<u>5,600</u>	<u>5,600</u>	<u>5,650</u>	<u>50</u>
Total revenues	<u>229,100</u>	<u>202,505</u>	<u>205,142</u>	<u>2,637</u>
Expenditures				
Current				
Public works	143,950	150,850	111,935	(38,915)
Capital outlay	49,000	15,505	8,166	(7,339)
Transfers out	<u>36,150</u>	<u>36,150</u>	<u>35,250</u>	<u>(900)</u>
Total expenditures	<u>229,100</u>	<u>202,505</u>	<u>155,351</u>	<u>(47,154)</u>
Excess of revenues over expenditures	-	-	49,791	49,791
Fund balance - beginning of year	<u>158,979</u>	<u>158,979</u>	<u>158,979</u>	<u>-</u>
Fund balance - end of year	<u>\$ 158,979</u>	<u>\$ 158,979</u>	<u>\$ 208,770</u>	<u>\$ 49,791</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state grants	\$ 58,000	\$ 58,000	\$ 57,423	\$ (577)
Local contributions	59,000	92,495	92,361	(134)
Interest income	500	500	1,149	649
Transfers in	<u>110,290</u>	<u>110,290</u>	<u>110,290</u>	<u>-</u>
Total revenues	<u>227,790</u>	<u>261,285</u>	<u>261,223</u>	<u>(62)</u>
Expenditures				
Current				
Public works	177,390	177,390	154,480	(22,910)
Capital outlay	49,000	82,495	82,493	(2)
Transfers out	<u>1,400</u>	<u>1,400</u>	<u>-</u>	<u>(1,400)</u>
Total expenditures	<u>227,790</u>	<u>261,285</u>	<u>236,973</u>	<u>(24,312)</u>
Excess of revenues over expenditures	-	-	24,250	24,250
Fund balance - beginning of year	<u>7,646</u>	<u>7,646</u>	<u>7,646</u>	<u>-</u>
Fund balance - end of year	<u>\$ 7,646</u>	<u>\$ 7,646</u>	<u>\$ 31,896</u>	<u>\$ 24,250</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Senior Citizens Housing
Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal grants	\$ 265,000	\$ 265,000	\$ 264,322	\$ (678)
Interest income	3,000	3,000	7,034	4,034
Rental income	129,900	129,900	135,052	5,152
Other revenue	-	-	103	103
	<u>397,900</u>	<u>397,900</u>	<u>406,511</u>	<u>8,611</u>
Expenditures				
Current				
Health and welfare	281,560	281,560	259,424	(22,136)
Capital outlay	25,000	25,000	27,665	2,665
Transfers out	157,680	157,680	155,550	(2,130)
	<u>464,240</u>	<u>464,240</u>	<u>442,639</u>	<u>(21,601)</u>
Total expenditures				
	<u>464,240</u>	<u>464,240</u>	<u>442,639</u>	<u>(21,601)</u>
Deficiency of revenues under expenditures	(66,340)	(66,340)	(36,128)	30,212
Fund balance - beginning of year	<u>237,021</u>	<u>237,021</u>	<u>237,021</u>	<u>-</u>
Fund balance - end of year	<u>\$ 170,681</u>	<u>\$ 170,681</u>	<u>\$ 200,893</u>	<u>\$ 30,212</u>

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2006

	Special Revenue Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Airport	Cemetery	
Assets			
Cash and cash equivalents	\$ 9,434	\$ 67,413	\$ 76,847
Liabilities			
Accounts payable	\$ 1,337	\$ -	\$ 1,337
Accrued and other liabilities	358	-	358
Total liabilities	1,695	-	1,695
Fund Balances			
Reserved for:			
Perpetual care	-	61,446	61,446
Undesignated	7,739	5,967	13,706
Total fund balances	7,739	67,413	75,152
Total liabilities and fund balances	\$ 9,434	\$ 67,413	\$ 76,847

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended February 28, 2006

	Special Revenue Fund	Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Airport	1980 G.O. Senior Citizens Housing Project	Cemetery	
Revenues				
Federal grants	\$ 135,055	\$ -	\$ -	\$ 135,055
Other state grants	43,742	-	-	43,742
Charges for services	10,513	-	-	10,513
Interest income	1,062	-	2,262	3,324
Rental income	5,940	-	-	5,940
Other revenue	48	-	-	48
Total revenues	196,360	-	2,262	198,622
Expenditures				
Current				
Public works	45,902	-	-	45,902
Capital outlay	206,017	-	-	206,017
Debt service				
Principal retirement	19,656	100,000	-	119,656
Interest and fiscal charges	3,505	55,550	-	59,055
Total expenditures	275,080	155,550	-	430,630
Excess (deficiency) of revenues over expenditures	(78,720)	(155,550)	2,262	(232,008)
Other financing sources (uses)				
Transfers in	53,204	155,550	2,165	210,919
Transfers out	-	-	(54,782)	(54,782)
Total other financing sources and uses	53,204	155,550	(52,617)	156,137
Net change in fund balance	(25,516)	-	(50,355)	(75,871)
Fund balance - beginning of year	33,255	-	117,768	151,023
Fund balance - end of year	\$ 7,739	\$ -	\$ 67,413	\$ 75,152

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Governmental Activities	9.250%	11/1/06	\$ 125,000	\$ 23,125	\$ 23,125	\$ 171,250
1980 General Obligation Senior Citizens	9.250%	11/1/07	125,000	17,344	17,344	159,688
Housing Project Bonds	9.250%	11/1/08	125,000	11,562	11,562	148,124
Amount of issue - \$2,050,000	9.250%	11/1/09	125,000	5,781	5,781	136,562
			<u>\$ 500,000</u>	<u>\$ 57,812</u>	<u>\$ 57,812</u>	<u>\$ 615,624</u>
1999 Installment Loan - Runway	4.500%	7/14/06	\$ 4,239	\$ 816	\$ -	\$ 5,055
Rehabilitation Project	4.500%	7/14/07	4,430	625	-	5,055
Amount of issue - \$40,000	4.500%	7/14/08	4,629	426	-	5,055
	4.500%	7/14/09	4,839	218	-	5,057
			<u>\$ 18,137</u>	<u>\$ 2,085</u>	<u>\$ -</u>	<u>\$ 20,222</u>
2001 Installment Loan - Runway	4.600%	6/8/06	\$ 1,736	\$ 537	\$ -	\$ 2,273
Rehabilitation Project	4.600%	6/8/07	1,816	457	-	2,273
Amount of issue - \$17,898	4.600%	6/8/08	1,898	375	-	2,273
	4.600%	6/8/09	1,986	287	-	2,273
	4.600%	6/8/10	2,078	195	-	2,273
	4.600%	6/8/11	2,165	100	-	2,265
			<u>\$ 11,679</u>	<u>\$ 1,951</u>	<u>\$ -</u>	<u>\$ 13,630</u>
2002 Installment Loan - Fire Hall Roof						
Amount of issue - \$18,683	3.750%	12/15/06	<u>\$ 3,995</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 4,145</u>
2003 Installment Loan - Vacant Land	4.550%	3/4/06	\$ 11,794	\$ 9,235	\$ -	\$ 21,029
Amount of issue - \$225,000	4.550%	3/4/07	12,330	8,698	-	21,028
	4.550%	3/4/08	12,869	8,159	-	21,028
	4.550%	3/4/09	13,477	7,551	-	21,028
	4.550%	3/4/10	14,090	6,938	-	21,028
	4.550%	3/4/11	14,731	6,297	-	21,028
	4.550%	3/4/12	15,386	5,642	-	21,028
	4.550%	3/4/13	16,101	4,927	-	21,028
	4.550%	3/4/14	16,834	4,194	-	21,028
	4.550%	3/4/15	17,600	3,428	-	21,028
	4.550%	3/4/16	18,394	2,634	-	21,028
	4.550%	3/4/17	19,238	1,790	-	21,028
	4.550%	3/4/18	20,113	915	-	21,028
			<u>\$ 202,957</u>	<u>\$ 70,408</u>	<u>\$ -</u>	<u>\$ 273,365</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2003 Installment Loan - John Deere Tractor	4.330%	3/20/06	\$ 14,545	\$ 1,288	\$ -	\$ 15,833
Amount of issue - \$72,855	4.330%	3/20/07	15,175	658	-	15,833
			<u>\$ 29,720</u>	<u>\$ 1,946</u>	<u>\$ -</u>	<u>\$ 31,666</u>
2004 Michigan Economic Dev. Corporation	5.000%	5/1/06	\$ 7,416	\$ 3,484	\$ -	\$ 10,900
Amount of issue - \$384,152	5.000%	8/1/06	7,509	3,391	-	10,900
	5.000%	11/1/06	7,603	3,297	-	10,900
	5.000%	2/1/07	7,698	3,202	-	10,900
	5.000%	5/1/07	7,794	3,106	-	10,900
	5.000%	8/1/07	7,891	3,008	-	10,899
	5.000%	11/1/07	7,990	2,910	-	10,900
	5.000%	2/1/08	8,090	2,810	-	10,900
	5.000%	5/1/08	8,191	2,709	-	10,900
	5.000%	8/1/08	8,293	2,606	-	10,899
	5.000%	11/1/08	8,397	2,503	-	10,900
	5.000%	2/1/09	8,502	2,398	-	10,900
	5.000%	5/1/09	8,608	2,292	-	10,900
	5.000%	8/1/09	8,716	2,184	-	10,900
	5.000%	11/1/09	8,825	2,075	-	10,900
	5.000%	2/1/10	8,935	1,965	-	10,900
	5.000%	5/1/10	9,047	1,853	-	10,900
	5.000%	8/1/10	9,160	1,740	-	10,900
	5.000%	11/1/10	9,274	1,624	-	10,898
	5.000%	2/1/11	9,390	1,510	-	10,900
	5.000%	5/1/11	9,508	1,392	-	10,900
	5.000%	8/1/11	9,626	1,273	-	10,899
	5.000%	11/1/11	9,747	1,153	-	10,900
	5.000%	2/1/12	9,869	1,031	-	10,900
	5.000%	5/1/12	9,992	908	-	10,900
	5.000%	8/1/12	10,117	783	-	10,900
	5.000%	11/1/12	10,243	656	-	10,899
	5.000%	2/1/13	10,371	528	-	10,899
	5.000%	5/1/13	10,501	399	-	10,900
	5.000%	8/1/13	10,632	267	-	10,899
	5.000%	11/1/13	10,765	135	-	10,900
			<u>\$ 278,700</u>	<u>\$ 59,192</u>	<u>\$ -</u>	<u>\$ 337,892</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Business-type Activities						
Water Supply System Revenue	5.100%	11/1/06	\$ 35,000	\$ 13,083	\$ 13,975	\$ 62,058
Bonds, Series 2000	5.150%	11/1/07	35,000	12,181	13,083	60,264
Amount of issue - \$650,000	5.200%	11/1/08	35,000	11,271	12,181	58,452
	5.250%	11/1/09	40,000	10,221	11,271	61,492
	5.300%	11/1/10	40,000	9,161	10,221	59,382
	5.400%	11/1/11	40,000	8,081	9,161	57,242
	5.500%	11/1/12	45,000	6,844	8,081	59,925
	5.600%	11/1/13	45,000	5,584	6,844	57,428
	5.650%	11/1/14	45,000	4,312	5,584	54,896
	5.700%	11/1/15	50,000	2,888	4,312	57,200
	5.750%	11/1/16	50,000	1,450	2,888	54,338
	5.800%	11/1/17	50,000	-	1,450	51,450
			<u>\$ 510,000</u>	<u>\$ 85,076</u>	<u>\$ 99,051</u>	<u>\$ 694,127</u>
Water Supply System Revenue	4.500%	11/1/06	\$ 20,000	\$ 18,293	\$ 18,293	\$ 56,586
Bonds, Series 2001	4.500%	11/1/07	25,000	17,843	17,843	60,686
Amount of issue - \$750,000	4.500%	11/1/08	30,000	17,280	17,280	64,560
	4.500%	11/1/09	30,000	16,605	16,605	63,210
	4.500%	11/1/10	30,000	15,930	15,930	61,860
	4.600%	11/1/11	35,000	15,255	15,255	65,510
	4.700%	11/1/12	35,000	14,450	14,450	63,900
	4.800%	11/1/13	40,000	13,628	13,628	67,256
	4.900%	11/1/14	40,000	12,668	12,668	65,336
	5.000%	11/1/15	45,000	11,688	11,688	68,376
	5.100%	11/1/16	50,000	10,562	10,562	71,124
	5.200%	11/1/17	50,000	9,287	9,287	68,574
	5.250%	11/1/18	75,000	7,988	7,988	90,976
	5.300%	11/1/19	75,000	6,019	6,019	87,038
	5.350%	11/1/20	75,000	4,031	4,031	83,062
	5.400%	11/1/21	75,000	2,025	2,025	79,050
			<u>\$ 730,000</u>	<u>\$ 193,552</u>	<u>\$ 193,552</u>	<u>\$ 1,117,104</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Sewage Disposal System Revenue	4.25%	9/1/2006	\$ 36,000	\$ 78,413	\$ 78,413	\$ 192,826
Bonds Series 2005 A	4.25%	9/1/2007	37,000	77,648	77,648	192,296
Amount of issue - \$3,690,000	4.25%	9/1/2008	39,000	76,861	76,861	192,722
	4.25%	9/1/2009	40,000	76,033	76,033	192,066
	4.25%	9/1/2010	42,000	75,183	75,183	192,366
	4.25%	9/1/2011	44,000	74,290	74,290	192,580
	4.25%	9/1/2012	46,000	73,355	73,355	192,710
	4.25%	9/1/2013	48,000	72,378	72,378	192,756
	4.25%	9/1/2014	50,000	71,358	71,358	192,716
	4.25%	9/1/2015	52,000	70,295	70,295	192,590
	4.25%	9/1/2016	55,000	69,190	69,190	193,380
	4.25%	9/1/2017	57,000	68,021	68,021	193,042
	4.25%	9/1/2018	59,000	66,810	66,810	192,620
	4.25%	9/1/2019	62,000	65,556	65,556	193,112
	4.25%	9/1/2020	65,000	64,239	64,239	193,478
	4.25%	9/1/2021	68,000	62,858	62,858	193,716
	4.25%	9/1/2022	71,000	61,413	61,413	193,826
	4.25%	9/1/2023	74,000	59,904	59,904	193,808
	4.25%	9/1/2024	77,000	58,331	58,331	193,662
	4.25%	9/1/2025	80,000	56,695	56,695	193,390
	4.25%	9/1/2026	84,000	54,995	54,995	193,990
	4.25%	9/1/2027	87,000	53,210	53,210	193,420
	4.25%	9/1/2028	91,000	51,361	51,361	193,722
	4.25%	9/1/2029	95,000	49,428	49,428	193,856
	4.25%	9/1/2030	99,000	47,409	47,409	193,818
	4.25%	9/1/2031	104,000	45,305	45,305	194,610
	4.25%	9/1/2032	108,000	43,095	43,095	194,190
	4.25%	9/1/2033	113,000	40,800	40,800	194,600
	4.25%	9/1/2034	118,000	38,399	38,399	194,798
	4.25%	9/1/2035	123,000	35,891	35,891	194,782
	4.25%	9/1/2036	128,000	33,278	33,278	194,556
	4.25%	9/1/2037	134,000	30,558	30,558	195,116
	4.25%	9/1/2038	140,000	27,710	27,710	195,420
	4.25%	9/1/2039	146,000	24,735	24,735	195,470
	4.25%	9/1/2040	152,000	21,633	21,633	195,266
	4.25%	9/1/2041	159,000	18,403	18,403	195,806
	4.25%	9/1/2042	166,000	15,024	15,024	196,048
	4.25%	9/1/2043	173,000	11,496	11,496	195,992
	4.25%	9/1/2044	181,000	7,820	7,820	196,640
	4.25%	9/1/2045	187,000	3,974	3,974	194,948
			<u>\$ 3,690,000</u>	<u>\$ 2,033,355</u>	<u>\$ 2,033,355</u>	<u>\$ 7,756,710</u>

Total debt issue is \$3,690,000. At 2/28/06 only \$220,000 was withdrawn.

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Sewage Disposal System Revenue	4.25%	9/1/2006	\$ 17,000	\$ 35,063	\$ 35,063	\$ 87,126
Bonds Series 2005 B	4.25%	9/1/2007	18,000	34,701	34,701	87,402
Amount of issue - \$1,650,000	4.25%	9/1/2008	18,000	34,319	34,319	86,638
	4.25%	9/1/2009	19,000	33,936	33,936	86,872
	4.25%	9/1/2010	20,000	33,533	33,533	87,066
	4.25%	9/1/2011	21,000	33,108	33,108	87,216
	4.25%	9/1/2012	22,000	32,661	32,661	87,322
	4.25%	9/1/2013	22,000	32,194	32,194	86,388
	4.25%	9/1/2014	23,000	31,726	31,726	86,452
	4.25%	9/1/2015	24,000	31,238	31,238	86,476
	4.25%	9/1/2016	25,000	30,728	30,728	86,456
	4.25%	9/1/2017	26,000	30,196	30,196	86,392
	4.25%	9/1/2018	27,000	29,644	29,644	86,288
	4.25%	9/1/2019	28,000	29,070	29,070	86,140
	4.25%	9/1/2020	30,000	28,475	28,475	86,950
	4.25%	9/1/2021	31,000	27,838	27,838	86,676
	4.25%	9/1/2022	32,000	27,179	27,179	86,358
	4.25%	9/1/2023	33,000	26,499	26,499	85,998
	4.25%	9/1/2024	35,000	25,798	25,798	86,596
	4.25%	9/1/2025	36,000	25,054	25,054	86,108
	4.25%	9/1/2026	38,000	24,289	24,289	86,578
	4.25%	9/1/2027	39,000	23,481	23,481	85,962
	4.25%	9/1/2028	41,000	22,653	22,653	86,306
	4.25%	9/1/2029	43,000	21,781	21,781	86,562
	4.25%	9/1/2030	44,000	20,868	20,868	85,736
	4.25%	9/1/2031	46,000	19,933	19,933	85,866
	4.25%	9/1/2032	48,000	18,955	18,955	85,910
	4.25%	9/1/2033	50,000	17,935	17,935	85,870
	4.25%	9/1/2034	52,000	16,873	16,873	85,746
	4.25%	9/1/2035	54,000	15,768	15,768	85,536
	4.25%	9/1/2036	57,000	14,620	14,620	86,240
	4.25%	9/1/2037	59,000	13,409	13,409	85,818
	4.25%	9/1/2038	61,000	12,155	12,155	85,310
	4.25%	9/1/2039	64,000	10,859	10,859	85,718
	4.25%	9/1/2040	66,000	9,499	9,499	84,998
	4.25%	9/1/2041	69,000	8,096	8,096	85,192
	4.25%	9/1/2042	72,000	6,630	6,630	85,260
	4.25%	9/1/2043	75,000	5,100	5,100	85,200
	4.25%	9/1/2044	78,000	3,506	3,506	85,012
	4.25%	9/1/2045	87,000	1,849	1,849	90,698
			<u>\$ 1,650,000</u>	<u>\$ 901,219</u>	<u>\$ 901,219</u>	<u>\$ 3,452,438</u>

Total debt issue is \$1,650,000. At 2/28/06 only \$580,000 was withdrawn.

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Water Supply System Junior Lien	4.25%	11/1/2006	\$ 20,000	\$ 28,603	\$ 28,603	\$ 77,206
Revenue Bonds Series 2005 A	4.25%	11/1/2007	20,000	28,178	28,178	76,356
Amount of issue - \$1,346,000	4.25%	11/1/2008	20,000	27,753	27,753	75,506
	4.25%	11/1/2009	20,000	27,328	27,328	74,656
	4.25%	11/1/2010	20,000	26,903	26,903	73,806
	4.25%	11/1/2011	20,000	26,478	26,478	72,956
	4.25%	11/1/2012	20,000	26,053	26,053	72,106
	4.25%	11/1/2013	20,000	25,628	25,628	71,256
	4.25%	11/1/2014	20,000	25,203	25,203	70,406
	4.25%	11/1/2015	20,000	24,778	24,778	69,556
	4.25%	11/1/2016	25,000	24,353	24,353	73,706
	4.25%	11/1/2017	25,000	23,821	23,821	72,642
	4.25%	11/1/2018	30,000	23,290	23,290	76,580
	4.25%	11/1/2019	30,000	22,653	22,653	75,306
	4.25%	11/1/2020	30,000	22,015	22,015	74,030
	4.25%	11/1/2021	30,000	21,378	21,378	72,756
	4.25%	11/1/2022	30,000	20,740	20,740	71,480
	4.25%	11/1/2023	30,000	20,103	20,103	70,206
	4.25%	11/1/2024	30,000	19,465	19,465	68,930
	4.25%	11/1/2025	30,000	18,828	18,828	67,656
	4.25%	11/1/2026	30,000	18,190	18,190	66,380
	4.25%	11/1/2027	30,000	17,553	17,553	65,106
	4.25%	11/1/2028	30,000	16,915	16,915	63,830
	4.25%	11/1/2029	31,000	16,278	16,278	63,556
	4.25%	11/1/2030	32,000	15,619	15,619	63,238
	4.25%	11/1/2031	34,000	14,939	14,939	63,878
	4.25%	11/1/2032	35,000	14,216	14,216	63,432
	4.25%	11/1/2033	37,000	13,473	13,473	63,946
	4.25%	11/1/2034	39,000	12,686	12,686	64,372
	4.25%	11/1/2035	40,000	11,858	11,858	63,716
	4.25%	11/1/2036	42,000	11,008	11,008	64,016
	4.25%	11/1/2037	44,000	10,115	10,115	64,230
	4.25%	11/1/2038	46,000	9,180	9,180	64,360
	4.25%	11/1/2039	48,000	8,203	8,203	64,406
	4.25%	11/1/2040	50,000	7,183	7,183	64,366
	4.25%	11/1/2041	52,000	6,120	6,120	64,240
	4.25%	11/1/2042	55,000	5,015	5,015	65,030
	4.25%	11/1/2043	57,000	3,846	3,846	64,692
	4.25%	11/1/2044	60,000	2,635	2,635	65,270
	4.25%	11/1/2045	64,000	1,360	1,360	66,720
			<u>\$ 1,346,000</u>	<u>\$ 699,943</u>	<u>\$ 699,943</u>	<u>\$ 2,745,886</u>

Total debt issue is \$1,346,000. At 2/28/06 only \$667,000 was withdrawn.

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2006

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Water Supply System Junior Lien	4.25%	11/1/2006	\$ 750	\$ 1,148	\$ 1,148	\$ 3,046
Revenue Bonds Series 2005 B	4.25%	11/1/2007	750	1,132	1,132	3,014
Amount of issue - \$54,000	4.25%	11/1/2008	750	1,116	1,116	2,982
	4.25%	11/1/2009	750	1,100	1,100	2,950
	4.25%	11/1/2010	750	1,084	1,084	2,918
	4.25%	11/1/2011	1,000	1,068	1,068	3,136
	4.25%	11/1/2012	1,100	1,047	1,047	3,194
	4.25%	11/1/2013	1,100	1,023	1,023	3,146
	4.25%	11/1/2014	1,100	1,000	1,000	3,100
	4.25%	11/1/2015	1,100	976	976	3,052
	4.25%	11/1/2016	1,200	953	953	3,106
	4.25%	11/1/2017	1,200	928	928	3,056
	4.25%	11/1/2018	1,200	902	902	3,004
	4.25%	11/1/2019	1,200	877	877	2,954
	4.25%	11/1/2020	1,200	851	851	2,902
	4.25%	11/1/2021	1,200	826	826	2,852
	4.25%	11/1/2022	1,350	800	800	2,950
	4.25%	11/1/2023	1,350	771	771	2,892
	4.25%	11/1/2024	1,350	743	743	2,836
	4.25%	11/1/2025	1,350	714	714	2,778
	4.25%	11/1/2026	1,350	685	685	2,720
	4.25%	11/1/2027	1,350	657	657	2,664
	4.25%	11/1/2028	1,350	628	628	2,606
	4.25%	11/1/2029	1,350	599	599	2,548
	4.25%	11/1/2030	1,350	571	571	2,492
	4.25%	11/1/2031	1,350	542	542	2,434
	4.25%	11/1/2032	1,350	513	513	2,376
	4.25%	11/1/2033	1,350	485	485	2,320
	4.25%	11/1/2034	1,350	456	456	2,262
	4.25%	11/1/2035	1,400	427	427	2,254
	4.25%	11/1/2036	1,500	397	397	2,294
	4.25%	11/1/2037	1,550	366	366	2,282
	4.25%	11/1/2038	1,650	333	333	2,316
	4.25%	11/1/2039	1,700	298	298	2,296
	4.25%	11/1/2040	1,800	261	261	2,322
	4.25%	11/1/2041	1,900	223	223	2,346
	4.25%	11/1/2042	2,000	183	183	2,366
	4.25%	11/1/2043	2,100	140	140	2,380
	4.25%	11/1/2044	2,200	96	96	2,392
	4.25%	11/1/2045	2,300	49	49	2,398
			<u>\$ 54,000</u>	<u>\$ 26,968</u>	<u>\$ 26,968</u>	<u>\$ 107,936</u>
Total debt issue is \$54,000. At 2/28/06 only \$3,000 was withdrawn.						
1992 Special Assessment Limited Tax Bonds	6.000%	11/1/06	\$ 15,000	\$ 450	\$ 450	\$ 15,900
Amount of issue - \$185,000						

City of Sandusky

Sandusky, Michigan

Single Audit Report

February 28, 2006

Table of Contents

	<u>Page</u>
Single Audit Compliance	
Report on Schedule of Federal Awards	1
Schedule of Expenditures of Federal Awards	2
Notes to the Schedule of Expenditures of Federal Awards	3
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	6
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	10



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Report on Schedule of Federal Awards

City Council
City of Sandusky
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky for the year ended February 28, 2006, and have issued our report thereon dated April 6, 2006. These financial statements are the responsibility of City of Sandusky's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming opinions on the basic financial statements of City of Sandusky taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
April 6, 2006

City of Sandusky
Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2006

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Water Supply System Junior Lien Revenue Bond, Series 2005A	10.760	\$ 951,360
Water Supply System Junior Lien Revenue Bond, Series 2005B		3,000
Sewage Disposal System Revenue Bond, Series 2005A		220,000
Sewage Disposal System Revenue Bond, Series 2005B		<u>1,242,619</u>
		<u>2,416,979</u>
U.S. Department of Housing and Urban Development		
Lower Income Housing Assistance Program	14.856	<u>264,322</u>
U.S. Department of Transportation		
Passed through Michigan Department of Transportation		
Airport Improvement Program B-26-0084-0304	20.106	20,330
Airport Improvement Program B-26-0084-0404		<u>114,725</u>
		<u>135,055</u>
Total expenditures of Federal Awards		<u>\$ 2,816,356</u>

City of Sandusky
Notes to the Schedule of Expenditures of Federal Awards
February 28, 2006

1. The Schedule of Expenditures of Federal Awards includes expenditures that have been incurred for the related projects. Requests for additional draw down of the Water and Sewer bonds were made after year end.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the City Council
City of Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky as of and for the year ended February 28, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Sandusky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sandusky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Sandusky in a separate letter dated April 6, 2006.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
April 6, 2006

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

City Council
City of Sandusky
Sandusky, Michigan

Compliance

We have audited the compliance of City of Sandusky with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2006. City of Sandusky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Sandusky's management. Our responsibility is to express an opinion on City of Sandusky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sandusky's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Sandusky's compliance with those requirements.

In our opinion, City of Sandusky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2006.

Internal Control over Compliance

The management of City of Sandusky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Sandusky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
April 6, 2006

City of Sandusky
Schedule of Findings and Questioned Costs
February 28, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.760	Water Supply System Junior Lien Revenue Bonds & Sewage Disposal System Revenue Bonds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

City of Sandusky
Schedule of Findings and Questioned Costs
February 28, 2006
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended February 28, 2006.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended February 28, 2006.

City of Sandusky
Summary Schedule of Prior Audit Findings
February 28, 2006

There were no audit findings for the year ended February 28, 2005.

April 6, 2006

Members of the City Council
City of Sandusky
Sandusky, Michigan

In planning and performing our audit of the financial statements of the City of Sandusky for the year ended February 28, 2006, we considered the City's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated April 6, 2006, on the financial statements of the City of Sandusky.

Airport Projects

During our audit we noted that none of the revenues or expenditures paid for by MDOT for the airport renovation project were recorded on the City's general ledger. We recommend on a monthly basis correspondence be obtained from MDOT showing all revenues and expenditures received and paid for on behalf of the City. This will allow the City to maintain adequate records of the airport and have proper supporting documentation to produce an audit trail.

Status of Prior Year Comments

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comment is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
The Treasurer's signature stamp should be eliminated or the access and usage of the stamp be restricted	X		

Page 2

Members of the City Council
City of Sandusky
Sandusky, Michigan

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with City personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in black ink that reads "Mari McKenzie". The signature is written in a cursive, flowing style.

Mari McKenzie